

QUARTERLY REPORT

LICENSEE: GREATE BAY HOTEL AND CASINO, INC.

FOR THE QUARTER ENDED DECEMBER 31, 2003

**TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

BALANCE SHEETS

AS OF DECEMBER 31, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	ASSETS		
	Current Assets:		
1	Cash and Cash Equivalents.....	\$ 16,903	\$ 18,834
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2003, \$5,918; 2002, \$11,301).*	5,308	5,001
4	Inventories.....	2,222	1,857
5	Prepaid Expenses and Other Current Assets..... Note 14.....	4,705	4,978 *
6	Total Current Assets.....	29,138	30,670
7	Investments, Advances, and Receivables.....	10,705	10,069
8	Property and Equipment - Gross..... Note 15.....	209,426	195,717
9	Less: Accumulated Depreciation and Amortization..... Note 15.....	(40,013)	(26,095)
10	Property and Equipment - Net..... Note 15.....	169,413	169,622
11	Other Assets.....	1,814	2,562 *
12	Total Assets.....	\$ 211,070	\$ 212,923
	LIABILITIES AND EQUITY		
	Current Liabilities:		
13	Accounts Payable.....	\$ 6,815	\$ 5,598
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates..... Note 1,3,5.....	21,900	6,500
16	Other.....	-	-
17	Income Taxes Payable and Accrued..... Note 4.....	97	29
18	Other Accrued Expenses..... Note 16.....	12,857	13,215
19	Other Current Liabilities..... Note 17.....	2,411	3,021
20	Total Current Liabilities.....	44,080	28,363
	Long-Term Debt:		
21	Due to Affiliates..... Note 1, 3.....	110,000	110,000
22	Other.....	-	-
23	Deferred Credits.....	-	-
24	Other Liabilities	3,728	3,445
25	Commitments and Contingencies		
26	Total Liabilities.....	157,808	141,808
27	Stockholders', Partners', Or Proprietor's Equity.....	53,262	71,115
28	Total Liabilities and Equity.....	\$ 211,070	\$ 212,923

The accompanying notes are an integral part of the financial statements.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	Revenue:		
1	Casino.....	\$ 183,036	\$ 206,417
2	Rooms.....	10,983	11,140
3	Food and Beverage.....	21,946	23,305
4	Other.....	3,925	3,739
5	Total Revenue.....	219,890	244,601
6	Less: Promotional Allowances..... Note 2.....	49,632	51,127
7	Net Revenue.....	170,258	193,474
	Costs and Expenses:		
8	Cost of Goods and Services.....	121,867	134,228
9	Selling, General, and Administrative..... Note 2.....	34,580	36,575
10	Provision for Doubtful Accounts.....	1,041	1,547
11	Total Costs and Expenses.....	157,488	172,350
12	Gross Operating Profit.....	12,770	21,124
13	Depreciation and Amortization.....	14,810	13,936
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	(2,040)	7,188
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates	(11,800)	(11,334)
18	Interest (Expense) - External.....	(227)	(307)
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(1,434)	(1,521)
20	Nonoperating Income (Expense) - Net..... Note 18.....	(1,399)	(1,021)
21	Total Other Income (Expenses).....	(14,860)	(14,183)
22	Income (Loss) Before Income Taxes And Extraordinary Items.....	(16,900)	(6,995)
23	Provision (Credit) for Income Taxes..... Note 4.....	953	774
24	Income (Loss) Before Extraordinary Items.....	(17,853)	(7,769)
	Extraordinary Items (Net of Income Taxes -		
25	2003, \$ - - ; 2002, \$ - -).....	-	-
26	Net Income (Loss).....	\$ (17,853)	\$ (7,769)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE	DESCRIPTION	2003	2002
(a)	(b)	(c)	(d)
	Revenue:		
1	Casino.....	\$ 40,843	\$ 44,972
2	Rooms.....	2,453	2,475
3	Food and Beverage.....	5,144	5,005
4	Other.....	915	864
5	Total Revenue.....	49,355	53,316
6	Less: Promotional Allowances..... Note 2.....	10,969	12,466
7	Net Revenue.....	38,386	40,850
	Costs And Expenses:		
8	Cost of Goods and Services.....	29,268	31,305
9	Selling, General, and Administrative..... Note 2.....	8,649	8,929
10	Provision for Doubtful Accounts.....	183	295
11	Total Costs and Expenses.....	38,100	40,529
12	Gross Operating Profit.....	286	321
13	Depreciation and Amortization.....	3,884	4,358
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other.....	-	-
16	Income (Loss) From Operations.....	(3,598)	(4,037)
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....	(3,012)	(2,935)
18	Interest (Expense) - External.....	(54)	(65)
19	Investment Alternative Tax and Related Income (Expense) - Net...	(568)	(458)
20	Nonoperating Income (Expense) - Net..... Note 18.....	(1,760)	(106)
21	Total Other Income (Expenses).....	(5,394)	(3,564)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	(8,992)	(7,601)
23	Provision (Credit) for Income Taxes..... Note 4.....	338	(52)
24	Income (Loss) Before Extraordinary Items.....	(9,330)	(7,549)
25	Extraordinary Items (Net of Income Taxes - 2002, \$ - - ; 2001, \$ - -).....	-	-
26	Net Income (Loss).....	\$ (9,330)	\$ (7,549)

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)		Retained Earnings (Accumulated) (Deficit) (f)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2001	100	\$ -		\$	89,659	\$	\$ (10,775)	\$ 78,884
2	Net Income (Loss) -							(7,769)	(7,769)
3	Contribution to Paid-in-Capital								
4	Dividends.....								
5	Prior Period Adjustments.....								
6									
7									
8									
9									
10	Balance, December 31, 2002.....	100	-			89,659		(18,544)	71,115
11	Net Income (Loss) - 2003.....							(17,853)	(17,853)
12	Contribution to Paid-in - Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15									
16									
17									
18									
19	Balance, December 31, 2003.....	100	\$ -		\$	89,659	\$	\$ (36,397)	\$ 53,262

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF CASH FLOWS
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ (2,411)	\$ 9,224
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....	-	-
3	Proceeds from the Sale of Short-Term Investment Securities.....	-	-
4	Cash Outflows for Property and Equipment.....	(12,825)	(14,058)
5	Proceeds from Disposition of Property and Equipment.	110	320
6	Purchase of Casino Reinvestment Obligations.....	(2,335)	(2,496)
7	Purchase of Other Investments and Loans/Advances made.....	-	-
	Proceeds from Disposal of Investments and Collection		
8	of Advances and Long-Term Receivables.....	130	208
9	Cash Outflows to Acquire Business Entities (net of cash acquired).	-	-
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(14,920)	(16,026)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....	15,400	6,500
14	Payments to Settle Short-Term Debt.....	-	-
15	Cash Proceeds from Issuance of Long-Term Debt.....	-	-
16	Costs of Issuing Debt.....	-	-
17	Payments to Settle Long-Term Debt.....	-	(371)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....	-	-
19	Purchases of Treasury Stock.....	-	-
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	15,400	6,129
24	Net Increase (Decrease) In Cash And Cash Equivalents.....	(1,931)	(673)
25	Cash And Cash Equivalents At Beginning Of Period.....	18,834	19,507
26	Cash And Cash Equivalents At End Of Period.....	\$ 16,903	\$ 18,834

	CASH PAID DURING PERIOD FOR:		
27	Interest (Net of Amount Capitalized).....	\$ 12,100	\$ 11,362
28	Income Taxes.....	\$ 892	\$ 1,745

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND 2002

(UNAUDITED)

(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2003 (c)	2002 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ (17,853)	\$ (7,769)
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment....	14,050	13,182
31	Amortization of Other Assets.....	760	754
32	Amortization of Debt Discount or Premium.....	-	-
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	-	(682)
35	(Gain) Loss on Disposition of Property and Equipment.....	(105)	1,467
36	(Gain) Loss on Casino Reinvestment Obligations.....	1,434	1,521
37	(Gain) Loss from Other Investment Activities.....	-	-
	Net (Increase) Decrease in Receivables and Patrons'		
38	Checks.....	(308)	3,935
39	Net (Increase) Decrease in Inventories.....	(371)	574
40	Net (Increase) Decrease in Other Current Assets.....	273	(789)
41	Net (Increase) Decrease in Other Assets.....	(12)	-
42	Net Increase (Decrease) in Accounts Payable.....	201	(1,245)
	Net Increase (Decrease) in Other Current Liabilities		
43	Excluding Debt.....	(849)	(2,244)
	Net Increase (Decrease) in Other Noncurrent Liabilities		
44	Excluding Debt.....	369	520
45			
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ (2,411)	\$ 9,224

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 12,825	\$ 14,058
49	Less: Capital Lease Obligations Incurred.....	-	-
50	Cash Outflows For Property And Equipment.....	\$ 12,825	\$ 14,058
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
53	Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment.....		
54	Long-Term Debt Assumed.....		
55	Issuance of Stock or Capital Invested.....		
56	Cash Outflows To Acquire Business Entities.....	\$ -	\$ -
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$ -	\$ -
58	Less: Issuances to Settle Long-Term Debt.....	-	-
59	Consideration in Acquisition of Business Entities.....	-	-
60	Cash Proceeds From Issuing Stock Or Capital Contributions.....	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE: SANDS HOTEL AND CASINO
**SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES**

(\$ IN THOUSANDS)

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	316,618	\$ 7,872		\$
2	Food	505,409	7,516		
3	Beverage	2,445,493	4,950		
4	Travel			2,361	777
5	Bus Program Cash	707,773	11,683		
6	Other Cash Complimentaries	309,107	16,541		
7	Entertainment	15,988	674		
8	Retail & Non-Cash Gifts			635,790	4,610
9	Parking			335,333	482
10	Other	56,208	396		
11	Total	4,356,596	\$ 49,632	973,484	\$ 5,869

FOR THE THREE MONTHS ENDED DECEMBER 31, 2003

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	70,279	\$ 1,548		\$
2	Food	129,347	1,716		
3	Beverage	590,499	1,309		
4	Travel			477	307
5	Bus Program Cash	159,026	2,556		
6	Other Cash Complimentaries	60,306	3,527		
7	Entertainment	5,802	215		
8	Retail & Non-Cash Gifts			120,294	1,287
9	Parking			88,913	113
10	Other	12,286	98		
11	Total	1,027,545	\$ 10,969	209,684	\$ 1,707

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization, Business and Basis of Presentation

Greate Bay Hotel and Casino, Inc. (the "Sands" or the "Company") is a New Jersey corporation and a wholly-owned subsidiary of GB Holdings, Inc. ("Holdings"), a Delaware corporation. Holdings was a wholly owned subsidiary of Pratt Casino Corporation ("PCC") through December 31, 1998. PCC, a Delaware corporation, was incorporated in September 1993 and was wholly owned by PPI Corporation ("PPI"), a New Jersey corporation and a wholly owned subsidiary of Greate Bay Casino Corporation ("GBCC"). Effective after December 31, 1998, PCC transferred 21% of the stock ownership in Holdings to PBV, Inc. ("PBV"), a newly formed entity controlled by certain stockholders of GBCC. As a result of a certain confirmed plan of reorganization of PCC and others in October 1999, the remaining 79% stock interest of PCC in Holdings was transferred to Greate Bay Holdings, LLC ("GBLLC"), whose sole member as a result of the same reorganization was PPI. In February 1994, Holdings acquired the Company through a capital contribution by its then parent. The Company's principal business activity is its ownership of The Sands Hotel and Casino located in Atlantic City, New Jersey (the "Sands"). GB Property Funding Corp. ("GB Property Funding"), a Delaware corporation and a wholly owned subsidiary of Holdings, was incorporated in September 1993 as a special purpose subsidiary of Holdings for the purpose of borrowing funds for the benefit of the Sands. Atlantic Coast Entertainment Holdings, Inc. ("Atlantic Holdings") is a Delaware corporation and a wholly-owned subsidiary of the Company. Atlantic Holdings was formed in November 2003 for the purpose of the contemplated exchange of \$110 million 11% Notes due 2005 for \$110 million 3% Notes due 2008 to be issued by Atlantic Holdings. ACE Gaming LLC, ("ACE Gaming"), a New Jersey limited liability Company and a wholly-owned subsidiary of Atlantic Holdings was formed in November 2003. Atlantic Holdings and its subsidiary, ACE Gaming, had no operating activities in 2003.

On July 14, 2003, a Form 8-K was filed with the SEC reporting that a committee of the independent directors of Holdings approved a proposed restructuring of the Existing Notes, together with various other corporate changes to be accomplished in connection with the proposed restructuring. In connection with the foregoing, on November 13, 2003, Atlantic Holdings filed with the SEC, a Registration Statement on Form S-4 (which contains a preliminary prospectus), under the Securities Act of 1933, as amended (the "Securities Act"), to transfer substantially all of the assets and liabilities of Holdings, the Company, and GB Property Funding, to Atlantic Holdings, in exchange for Atlantic Holdings issuance of 3% Notes due 2008 in exchange for the Existing Notes and the cancellation of such Notes) and the registration of certain securities to be issued to the stockholders of Holdings; and, also on such date, Atlantic Holdings and ACE Gaming filed with the SEC, a Registration Statement on Form S-4 under the Securities Act, with respect to a consent solicitation and exchange offer with respect to the Existing Notes. Neither of such Registration Statements have been declared effective and each was amended by filing Amendment No. 1 to Form S-4/A on February 13, 2004. Holdings and Atlantic Holdings also filed with the SEC a schedule 13e-3, under the Securities and Exchange Act of 1934, with respect to such transactions, which was also amended by the filing of a Schedule 13e-3/A on February 13, 2004.

The accompanying consolidated financial statements include the accounts and operations of the Company and its subsidiaries (Atlantic Holdings and ACE Gaming), and GB Property, collectively, the "Company". All significant intercompany balances and transactions have been eliminated. Throughout this document, references to Notes are referring to the Notes to Consolidated Financial Statements contained herein.

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Sands is located in Atlantic City, New Jersey on approximately 6.1 acres of land one-half block from the Boardwalk at Brighton Park between Indiana Avenue and Dr. Martin Luther King, Jr. Boulevard. The Sands facility currently consists of a casino and simulcasting facility with approximately 78,000 square feet of gaming space containing approximately 2,202 slot machines and approximately 73 table games; a hotel with 637 rooms (including 57 suites); five restaurants; two cocktail lounges; two private lounges for invited guests; an 800-seat cabaret theater; retail space; an adjacent nine-story office building with approximately 77,000 square feet of office space for its executive, financial and administrative personnel; the "People Mover", an elevated, enclosed, one-way moving sidewalk connecting The Sands to the Boardwalk using air rights granted by an easement from the City of Atlantic City and a garage and surface parking for approximately 1,750 vehicles.

On January 5, 1998, the Company along with Holdings and GB Property Funding (the "Petitioners") filed petitions for relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court"). On August 14, 2000, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Modified Fifth Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code Proposed by the Official Committee of Unsecured Creditors and High River Limited Partnership and its affiliates (the "Plan") for the Petitioners. High River Limited Partnership ("High River") is an entity controlled by Carl C. Icahn. On September 13, 2000, the New Jersey Casino Control Commission (the "Commission") approved the Plan. On September 29, 2000, the Plan became effective (the "Effective Date"). All material conditions precedent to the Plan becoming effective were satisfied on or before September 29, 2000. Accordingly, the accompanying consolidated financial statements have been prepared in accordance with Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). In addition, as a result of the Confirmation Order and the occurrence of the Effective Date, and in accordance with SOP 90-7, the Company has adopted "fresh start reporting" in the preparation of the accompanying consolidated financial statements. The Company's emergence from Chapter 11 resulted in a new reporting entity with no retained earnings or accumulated deficit as of September 30, 2000.

A significant amount of The Sands' revenues are derived from patrons living in northern New Jersey, southeastern Pennsylvania and metropolitan New York City. Competition in the Atlantic City gaming market is intense and management believes that this competition will continue or intensify in the future especially with the opening of a new casino during 2003 and the expected expansion of the market's rooms inventory at pre-existing competitors in 2004.

On the Effective Date, GB Property Funding's existing debt securities, consisting of its 10 7/8% First Mortgage Notes due January 15, 2004 (the "Old Notes") and all of Holdings' issued and outstanding shares of common stock owned by PBV and GBLLC (the "Old Common Stock"), were cancelled. As of the Effective Date, an aggregate of 10,000,000 shares of new common stock of Holdings (the "New Common Stock") were issued and outstanding, and \$110,000,000 of 11% First Mortgage Notes due 2005 were issued by GB Property Funding (the "Existing Notes"). Holders of the Old Notes received a distribution of their pro rata shares of (i) the Existing Notes and (ii) 5,375,000 shares of the New Common Stock (the "Stock Distribution"). In addition, \$65,000,000 in cash was obtained from affiliates of the majority shareholder.

Despite annual net losses and the 2003 negative net cash from operations, Management believes that cash reserves, expected net cash flow from 2004 operations and additional financing will be adequate to meet the 2004 funding requirements for operations, capital expenditures and refinancing debt. Based upon expected cash flow generated from operations, management determined that it would be prudent for the Company to

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

obtain a line of credit to provide additional cash availability, to meet the Company's working capital needs, in the event that anticipated cash flow is less than expected or expenses exceed those anticipated. At the request of the Company, Ealing Corp., a Nevada corporation and an affiliate of Mr. Icahn, agreed to provide a revolving credit facility, secured by a first lien on all of the assets of the Company, under which the Company may borrow up to an aggregate amount of \$10 million for general working capital purposes. Ealing's obligation to provide the financing pursuant to the commitment letter is subject to the negotiation and execution of definitive loan and security agreements and related documents as well as certain customary conditions. However, there can be no assurance that the loan agreement with Ealing will be consummated, that if the loan agreement is not consummated, the Company will be able to obtain financing from another lender on terms as or more favorable than the terms of the commitment letter, or whether the Company will need to borrow for working capital.

(2) Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of the accompanying consolidated financial statements are discussed below. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Casino revenues, promotional allowances and departmental expenses -

The Sands recognizes the net win from gaming activities (the difference between gaming wins and losses) as casino revenues. Casino revenues are net of accruals for anticipated payouts of progressive and certain other slot machine jackpots. Such anticipated jackpots and payouts are included in gaming liabilities on the accompanying consolidated balance sheets.

In 2001, the Emerging Issues Task Force (the "EITF") reached a consensus on Issue No. 01-09: "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EITF 01-09"). For a sales incentive offered voluntarily by a vendor to its patrons, EITF 01-09 requires the vendor to recognize the cost of the sales incentive at the later of the date at which the related revenue is recorded by the vendor, or the date at which the sales incentive is offered. Application of EITF 01-09 is required in annual or interim financial statements for periods beginning after December 15, 2002. EITF 01-09 requires, among other things, that cash or other consideration provided to customers as part of a transaction is presumed to be a reduction in revenue unless the vendor is able to establish both that it received or will receive a separate identifiable benefit and the fair value of the benefit can be reasonably estimated. The Company offers cash inducements to encourage visitation and play at the casino and, as the Company was unable to meet the criteria as discussed in EITF 01-09, these costs have been classified as promotional allowances on the accompanying consolidated statements of operations.

With the adoption of EITF 01-09, the 2001 statement of operations has been reclassified to conform to the new presentation. This resulted in a \$20.1 million increase in promotional allowance and a corresponding reduction in casino expense for the year-end December 31, 2001. Application of the requirements of EITF 01-09 did not have an impact on previously reported operating income or net loss and had no impact on the

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

previously reported consolidated financial statements, which were adjusted to these standards at December 31, 2002 for the prior period ended December 31, 2001.

The estimated value of rooms, food and beverage and other items that were provided to customers without charge has been included in revenues and a corresponding amount has been deducted as promotional allowances.

Cash and cash equivalents -

Cash and cash equivalents are generally comprised of cash and investments with original maturities of three months or less, such as commercial paper, certificates of deposit and fixed repurchase agreements.

Allowance for doubtful accounts -

In its normal course of business The Sands incurs receivables arising from credit provided to casino customers, hotel customers and accrued interest receivable. The allowance for doubtful accounts adjusts these gross receivables to Management's estimate of their net realizable value. The provision for doubtful accounts charged to expense is determined by Management based on a periodic review of the receivable portfolio. This provision is based on estimates, and actual losses may vary from these estimates. The allowance for doubtful accounts is maintained at a level that Management considers adequate to provide for possible future losses. Provisions for doubtful accounts amounting to \$1,040,000 and \$1,586,000 for the years ended December 31, 2003 and 2002, respectively, were recorded in Casino Expenses on the accompanying consolidated statements of operations.

Inventories -

Inventories are stated at the lower of cost (on a first-in, first-out basis) or market.

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and equipment -

As of the Effective Date, property and equipment were restated pursuant to SOP 90-7 and are being depreciated utilizing the straight line method over their remaining estimated useful lives.

Property and equipment purchased after the Effective Date have been recorded at cost and are being depreciated utilizing the straight-line method over their estimated useful lives as follows:

Buildings and improvements	25-40 years
Operating equipment	3-7 years

Interest costs related to property and equipment acquisitions are capitalized during the acquisition period and are being amortized over the useful lives of the related assets.

Deferred financing costs -

The costs of issuing long-term debt, including all related underwriting, legal, directors and accounting fees, were capitalized and are being amortized over the term of the related debt issue. Deferred financing costs of \$180,000 were incurred in connection with GB Property's offering of \$110,000,000 11% Notes due 2005 (the "Existing Notes"). During 2002, additional costs associated with a Consent Solicitation by GB Property to modify the original indenture for the Existing Notes were capitalized and are also being amortized over the remaining term of the Existing Notes. Total Consent Solicitation costs, including expenses, amounted to \$2,083,000 in 2001 (see Note 3). For the years ended December 31, 2003 and 2002 amortization of deferred financing costs were \$555,000 and \$555,000, respectively.

Long-lived assets -

In 2002, the Company adopted FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS No. 144"), which excludes from the definition of long-lived assets goodwill and other intangibles that are not amortized in accordance with FAS No. 142. FAS No. 144 requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. FAS No. 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business. The adoption of FAS No. 144 did not have an impact on the Company's consolidated financial statements.

The Company periodically reviews long-lived assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairments are recognized when the expected future undiscounted cash flows derived from such assets are less than their carrying value. For such cases, losses are recognized for the difference between the fair value and the carrying amount. Assets to be disposed of by sale or abandonment, and where management has the current ability to remove such assets from operations, are recorded at the lower of carrying amount or fair value less cost of disposition. Depreciation for these assets is suspended during the disposal period, which is generally less than one year. Assumptions and estimates used in the determination of impairment losses, such as future cash flows and disposition costs, may affect the carrying value of long-lived assets and possible impairment expense in the Company's consolidated financial statements. Management does not believe that any material impairment currently exists related to its long-lived assets.

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accrued insurance -

THE COMPANY is self insured for a portion of its general liability, workers compensation, certain health care and other liability exposures. A third party insures losses over prescribed levels. Accrued insurance includes estimates of such accrued liabilities based on an evaluation of the merits of individual claims and historical claims experience. Accordingly, The Company's ultimate liability may differ from the amounts accrued.

Income taxes -

Since 1999, the Company's provision for federal income taxes is calculated and paid on a consolidated basis with GB Property and Holdings.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period of the enactment date.

New Accounting Pronouncements

On January 1, 2003, the Company adopted FAS No. 143, "Asset Retirement obligations" ("FAS No. 143"), which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The adoption of FAS No. 143 did not have any impact on the Company's consolidated financial statements.

On January 1, 2003, the Company adopted FAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("FAS No. 148"), which provides alternative methods of transition for companies that choose to switch to the fair value method of accounting for stock options. FAS No. 148 also makes changes in the disclosure requirements for stock-based compensation, regardless of which method of accounting is chosen. The adoption of FAS No. 148 did not have any impact on the Company's consolidated financial statements.

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reclassifications -

Certain reclassifications have been made to prior years' consolidated financial statements to conform to the current year consolidated financial statement presentations.

(3) Long-Term Debt

Long-term debt is comprised of the following:

	December 31,	
	2003	2002
Due to GB Property Funding (a)	\$ 110,000,000	\$ 110,000,000
Due to Holdings	21,900,000	6,500,000
Total indebtedness	131,900,000	116,500,000
Less - current maturities	(21,900,000)	(6,500,000)
Total long-term debt	<u>\$ 110,000,000</u>	<u>\$ 110,000,000</u>

- (a) As a result of the Confirmation Order and the occurrence of the Effective Date and under the terms of the Plan, the Old Notes were cancelled and replaced with Existing Notes. Interest on the Existing Notes is payable on March 29 and September 29, beginning March 29, 2002. The outstanding principal is due on September 29, 2005. The Existing Notes are unconditionally guaranteed, on a joint and several basis, by both Holdings and the Company, and are secured by substantially all of the assets, as of the Effective Date, other than cash and gaming receivables of Holdings and the Company.

The original indenture for the Existing Notes contained various provisions, which, among other things, restricted the ability of Holdings, and the Company to incur certain senior secured indebtedness beyond certain limitations, and contained certain other limitations on the ability to merge, consolidate, or sell substantially all of their assets, to make certain restricted payments, to incur certain additional senior liens, and to enter into certain sale-leaseback transactions.

In a Consent Solicitation Statement and Consent Form dated September 14, 2001, GB Property Funding sought the consent of holders of the Existing Notes to make certain changes to the original indenture (the "Modifications"). The Modifications included, but were not limited to, a deletion of, or changes to, certain provisions the result of which would be (i) to permit Holdings and its subsidiaries to incur any additional indebtedness without restriction, to issue preferred stock without restriction, to make distributions in respect of preferred stock and to prepay indebtedness without restriction, to incur liens without restriction and to enter into sale-leaseback transactions without restriction, (ii) to add additional exclusions to the definition of "asset sales" to exclude from the restrictions on "asset sales" sale-leaseback transactions, conveyances or contributions to any entity in which Holdings or its subsidiaries has or

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

obtains equity or debt interests, and transactions (including the granting of liens) made in accordance with another provision of the Modifications relating to collateral release and subordination or any documents entered into in connection with an "approved project" (a new definition included as part of the Modifications which includes, if approved by the Board of Directors of Holdings, incurrence of indebtedness or the transfer of assets to any person if Holdings or any of its subsidiaries has or obtain debt or equity interests in the transferee or any similar, related or associated event, transaction or activity) in which a release or subordination of collateral has occurred including, without limitation, any sale or other disposition resulting from any default or foreclosure, (iii) to exclude from the operation of covenants related to certain losses to collateral, any assets and any proceeds thereof, which have been subject to the release or subordination provisions of the Modifications, (iv) to permit the sale or other conveyances of Casino Reinvestment Development Authority investments in accordance with the terms of a permitted security interest whether or not such sale was made at fair value, (v) to exclude from the operation of covenants related to the deposit into a collateral account of certain proceeds of "asset sales" or losses to collateral any assets and any proceeds thereof, which have been subject to the release or subordination provisions of the Modifications, (vi) to add new provisions authorizing the release or subordination of the collateral securing the Existing Notes in connection with, in anticipation of, as a result of, or in relation to, an "approved project", and (vii) various provisions conforming the text of the original indenture to the intent of the preceding summary of the Modifications.

Holders representing approximately 98% in principal amount of the Existing Notes provided consents to the Modifications. Under the terms of the original indenture, the consent of holders representing a majority in principal amount of Existing Notes was a necessary condition to the Modifications. Accordingly, GB Property Funding, as issuer, and Holdings and the Company, as guarantors, and Wells Fargo Bank Minnesota, National Association, as Trustee, entered into an Amended and Restated Indenture dated as of October 12, 2001, containing the Modifications to the original indenture described in the Consent Solicitation Statement (the "Amended and Restated Indenture"). In accordance with the terms of the Consent Solicitation Statement, holders of Existing Notes, who consented to the Modifications and who did not revoke their consents ("Consenting Noteholders"), were entitled to \$17.50 per \$1,000 in principal amount of Existing Notes, subject to certain conditions including entry into the Amended and Restated Indenture. Upon entry into the Amended and Restated Indenture on October 12, 2001, the Company transferred approximately \$1.9 million to the Trustee for distribution to Consenting Noteholders.

As of December 31, 2003 the only scheduled payment of long-term debt is the \$110 million for Existing Notes, due September 29, 2005.

At December 31, 2003 and 2002, accrued interest on the Existing Notes was \$3,092,000 and \$3,092,000, respectively.

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Income Taxes

The components of the (provision) benefit for income taxes are as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002
	<u> </u>	<u> </u>
Federal income tax (provision) benefit	\$	\$
Current	-	-
Deferred	-	-
State income tax (provision) benefit		
Current	(953,000)	(774,000)
Deferred	-	-
	<u> </u>	<u> </u>
	<u><u>\$ (953,000)</u></u>	<u><u>\$ (774,000)</u></u>

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. The major components of deferred tax liabilities and assets as of December 31, 2003 and 2002 were as follows:

	2003	2002
Deferred tax assets:		
Bad debt reserve	\$ 2,418,000	\$ 5,137,000
Deferred financing costs	234,000	1,053,000
Group insurance	747,000	936,000
Accrued vacation	613,000	732,000
Action cash awards accrual	123,000	499,000
Jackpot accrual	298,000	337,000
Medical reserve	408,000	109,000
Reorganization Costs	754,000	-
CRDA	5,724,000	5,512,000
Federal and state net operating loss carryforward	17,004,000	8,163,000
Grantors trust income	3,616,000	3,570,000
Credit and capital loss carryforwards	3,385,000	2,421,000
Other	297,000	330,000
	<u>35,621,000</u>	<u>28,799,000</u>
Total deferred tax assets	35,621,000	28,799,000
Less valuation allowance	(17,685,000)	(10,257,000)
Total deferred tax assets after valuation allowance	<u>17,936,000</u>	<u>18,542,000</u>
Deferred tax liabilities:		
Noncurrent:		
Depreciation of plant and equipment	(17,812,000)	(18,466,000)
Chips and tokens	(124,000)	(76,000)
	<u>(17,936,000)</u>	<u>(18,542,000)</u>
Total deferred tax liabilities	(17,936,000)	(18,542,000)
Net deferred tax assets (liabilities)	\$ <u>-</u>	\$ <u>-</u>

Federal net operating loss carryforwards totaled approximately \$39 million as of December 31, 2003 and will begin expiring in the year 2022 and forward. New Jersey net operating loss carryforwards totaled approximately \$58 million as of December 31, 2003. The enactment of the Business Tax Reform Act ("BTR") on July 2, 2002 deferred New Jersey net operating losses ("State NOL's") set to expire in 2002 and 2003, for a two year period. As a result, about \$6 million of state net operating loss carryforwards set to expire in 2003 are extended to 2005. The Company also has general business credit carryforwards of approximately \$1.4 million which expire in 2004 through 2022. Additionally, as of December 2003, the Company has a federal alternative minimum tax (AMT) credit carryforward of about \$72,000 and a New Jersey alternative minimum assessment (AMA) credit carryforward of approximately \$1.5 million, both of which can be carried forward indefinitely.

Financial Accounting Standards No. 109 ("FAS 109") requires that the tax benefit of NOL's and deferred tax assets resulting from temporary differences be recorded as an asset and, to the extent that management can not assess that the utilization of all or a portion of such NOL's and deferred tax assets is more likely than not, requires the recording of a valuation allowance. Management has determined that the realization of certain of

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company's deferred tax assets is not more likely than not and, thus, has provided a valuation allowance against those assets at December 31, 2003 and 2002.

The provision for income taxes differs from the amount computed at the federal statutory rate as a result of the following:

	<u>Years Ended December 31,</u>	
	<u>2003</u>	<u>2002</u>
Federal statutory rate	(35.0) %	(35.0) %
State taxes net of federal benefit	(2.2) %	(1.6) %
Permanent differences	0.2 %	0.9 %
Tax credits	(5.2) %	(13.2) %
Deferred tax valuation allowance	47.9 %	57.8 %
Other	0.0 %	3.1 %
	<u>5.7 %</u>	<u>12.0 %</u>

Holdings also had a change of ownership as defined under Internal Revenue Code Section 382 upon the Effective Date. Management currently estimates there will be no significant limitations on the ability of the Company to use its tax credit carryforwards on a post confirmation basis as a result of this change of ownership. On July 3, 2002, the State of New Jersey passed the New Jersey Business Tax Reform Act, which, among other things, suspended the use of the New Jersey net operating loss carryforwards for two years and introduced a new alternative minimum assessment under the New Jersey corporate business tax based on gross receipts or gross profits. For the years ended December 31, 2003 and 2002, there was a charge to income tax provision of \$778,000 and \$774,000, respectively, related to the impact of the New Jersey Business Tax Reform Act. On July 1, 2003, the State of New Jersey amended the New Jersey Casino Control Act (the "NJCCA") to impose various tax increases on Atlantic City casinos, including The Sands. Among other things, the amendments to the NJCCA include the following new tax provision: the greater of a \$350,000 minimum tax or a 7.5% tax on adjusted net income of licensed casinos (the "Casino Net Income Tax") in State fiscal years 2004 through 2006, with the proceeds deposited to the Casino Revenue Fund. For the year ended December 31, 2003, \$175,000 was charged to the income tax provision related to the minimum Casino Net Income Tax, which is payable in quarterly installments of \$87,500 each.

(5) Transactions with related parties

The Company's rights to the trade name "The Sands" (the "Trade Name") were derived from a license agreement between Greate Bay Casino Corporation and an unaffiliated third party. Amounts payable by the Company for these rights were equal to the amounts paid to the unaffiliated third party. On September 29, 2000, High River Limited Partnership assigned the Company the rights under a certain agreement with the owner of the Trade Name to use the Trade Name as of September 29, 2000 through May 19, 2086, subject to termination rights for a fee after a certain minimum term. High River is an entity controlled by Carl C. Icahn. High River received no payments for its assignment of these rights. Payment is made directly to the owner of the Trade Name. For the years ended December 31, 2003 and 2002, the license fee amounted to \$263,000 and \$272,000, respectively.

The Stratosphere Casino Hotel & Tower (the "Stratosphere"), an entity controlled by Carl C. Icahn, allocates a portion of certain executive salaries, including the salary of Richard P. Brown, CEO of Holdings, as

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

well as other charges for tax preparation and travel to the Company. Payments for such charges incurred from the Stratosphere for the year ended December 31, 2003 amounted to \$191,000, including \$106,000 for Mr. Brown's salary. There were no similar charges for the year ended December 31, 2002.

On February 28, 2003, Operating entered into a two year agreement with XO New Jersey, Inc. a long-distance phone carrier controlled by Carl C. Icahn. The agreement can be extended beyond the minimum two year term on a month-to-month basis. Payments for such charges incurred for the year ended December 31, 2003 amounted to \$127,000.

During the years ended December 31, 2003 and 2002, the Company borrowed \$15.4 million and \$6.5 million, respectively, from Holdings. These amounts are included in Due to Affiliates on the accompanying Balance Sheets. There was no interest expense incurred with respect to affiliate advances and borrowings for the periods presented in the accompanying Statements of Income.

On October 12, 2001, as a result of, and pursuant to the terms of, a consent solicitation dated September 20, 2001 to holders of Existing Notes, holders that consented were paid \$17.50 for each \$1,000 of principal amount of notes held, the affiliates of Mr. Icahn were paid \$1,118,6770 because they consented to certain amendments to the Indenture, dated as of September 29, 2000, among GB Property, as issuer. Holdings and Greate Bay Hotel, as guarantors, and Wells Fargo Bank Minnesota, National Association, as Trustee.

(6) New Jersey Regulations and Obligatory Investments

The Sands conducts gaming operations in Atlantic City, New Jersey and operates a hotel and several restaurants, as well as related support facilities. The operation of an Atlantic City casino/hotel is subject to significant regulatory control. Under the NJCCA, the Company was required to obtain and is required to periodically renew its operating license. A casino license is not transferable and, after the initial licensing and two one-year renewal periods, is issued for a term of up to four years. The plenary license issued to The Sands was renewed by the Commission in September, 2000 and extended through September 2004. The Commission may reopen licensing hearings at any time. If it were determined that gaming laws were violated by a licensee, the gaming license could be conditioned, suspended or revoked. In addition, the licensee and other persons involved could be subject to substantial fines.

In order to renew the Company's casino license, the Commission must determine that the Company and Holdings are financially stable. In order to be found "financially stable" under the NJCCA, The Company and Holdings must demonstrate, among other things, their ability to pay, exchange, or refinance debts that mature or otherwise become due and payable during the license term, or to otherwise manage such debts. Because the Existing Notes will become due during the period following the renewal of the license in 2004, the Commission will require the Company and Holdings to indicate the efforts they will pursue or are pursuing to refinance the Existing Notes prior to maturity and during the new license term. Currently, the Commission is and will continue to monitor the efforts of the Company and Holdings to manage and refinance the Existing Notes. There has been no precedent of non-renewal of a casino license in this situation.

The NJCCA requires casino licensees to pay an investment alternative tax of 2.5% of Gross Revenue (the "2.5% Tax") or, in lieu thereof, to make quarterly deposits of 1.25% of quarterly Gross Revenue with the CRDA (the "Deposits"). The Deposits are then used to purchase bonds at below-market interest rates from the CRDA or to make qualified investments approved by the CRDA. The CRDA administers the statutorily mandated investments made by casino licensees and is required to expend the monies received by it for eligible

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

projects as defined in the NJCCA. The Sands has elected to make the Deposits with the CRDA rather than pay the 2.5% Tax.

As of December 31, 2003 and 2002, The Sands had purchased bonds totaling \$6,875,000 and \$6,946,000, respectively. In addition, The Sands had remaining funds on deposit and held in escrow by the CRDA at December 31, 2003 and 2002, of \$15,198,000 and \$13,151,000, respectively. The bonds purchased and the amounts on deposit and held in escrow are collectively referred to as "obligatory investments" on the accompanying consolidated financial statements.

Obligatory investments at December 31, 2003 and 2002, are net of accumulated valuation allowances of \$11,340,000 and \$10,028,000, respectively, based upon the estimated realizable values of the investments. Provisions for valuation allowances for the years ended December 31, 2003 and 2002 amounted to \$1,434,000 and 1,521,000, respectively.

The Sands has, from time to time, contributed certain amounts held in escrow by the CRDA to fund CRDA sponsored projects. During 2003, The Sands donated \$695,000 of its escrowed funds to CRDA sponsored projects. No specific refund or future credit has been associated with the 2003 contributions. During 2002, The Sands contributed \$925,000 of its escrowed funds to CRDA sponsored projects and received \$116,000 in a cash refund. In 2001, The Sands contributed \$322,000 of its escrowed funds to CRDA sponsored projects and received \$80,000 in a cash refund and \$84,000 in waivers of certain future Deposit obligations. Prior to this, the CRDA had granted The Sands both cash refunds and waivers of certain of its future Deposit obligations in consideration of similar contributions. Other assets aggregating \$621,000 and \$811,000, respectively, have been recognized on the accompanying consolidated balance sheets at December 31, 2003 and 2002, and are being amortized over a period of ten years commencing with the completion of the projects. Amortization of other assets totaled \$205,000, \$199,000 and \$202,000 for the years ended December 31, 2003, 2002 and 2001, respectively, and are included in depreciation and amortization, including provision for obligatory investments on the accompanying statements of operations.

The Sands has agreed to contribute certain of its future investment obligations to the CRDA in connection with the renovation related to the Atlantic City Boardwalk Convention Center. The projected total contribution will amount to \$6.9 million, which will be paid through 2011 based on an estimate of certain of The Sands' future CRDA deposit obligations. As of December 31, 2003, The Sands had satisfied \$2.1 million of this obligation.

(7) Commitments and Contingencies

Legal Proceedings

Tax appeals on behalf of the Company and the City of Atlantic City challenging the amount of the Company's real property assessments for tax years 1996 through 2003 are pending before the NJ Tax Court.

In 2001, the Company discovered certain failures relating to currency transaction reporting which resulted in the failure of the Company to file legally required currency transaction reports. Following this discovery, the Company self-reported the situation to the applicable regulatory agencies. The Company conducted an internal examination of the matter and the New Jersey Division of Gaming Enforcement conducted a separate review. There has not been an impact on the Company's financial reporting because of these failures, the Company has revised internal control processes and taken other measures to address the

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

situation. In May 2003, the Company was advised by the Department of the Treasury that it will not pursue a civil penalty.

By letter dated January 23, 2004, Sheffield Enterprises, Inc. asserted potential claims against the Sands under the Lanham Act for permitting a show entitled The Main Event, to run at the Sands during 2001. Sheffield also asserts certain copyright infringement claims growing out of the Main Event performances. It has not yet been determined whether or not the claims made by Sheffield would, if adversely determined, materially impact the financial position or results of operations of the Company.

On February 26, 2003, the Sands received a letter from counsel for Mr. Frederick H. Kraus, Executive Vice President, General Counsel and Secretary, indicating that he had been retained to represent Mr. Kraus "in regards to a constructive discharge, breach of contract, severance pay" and other claims. This matter has been amicably resolved.

The Company is a party in various legal proceedings with respect to the conduct of casino and hotel operations and has received employment related claims. Although a possible range of losses cannot be estimated, in the opinion of management, based upon the advice of counsel, the Company does not expect settlement or resolution of these proceedings or claims to have a material adverse impact upon their consolidated financial position or results of operations, but the outcome of litigation and the resolution of claims is subject to uncertainties and no assurances can be given. The consolidated financial statements do not include any adjustments that might result from these uncertainties.

From time to time, the Company and certain of its officers, directors, agents and employees, are subject to various legal and administrative proceedings incidental to the business of the Company, the Company does not believe any proceedings currently pending are material to the conduct of the business of the Company.

Labor Relations

The Sands has collective bargaining agreements with three unions that represent approximately 818 employees, most of whom are represented by the Hotel, Restaurant Employees and Bartenders International Union, AFL-CIO, Local 54. The collective bargaining agreement with Local 54 expires in September 2004. The collective bargaining agreements with the Carpenters, Local 623 and Entertainment Workers, Local 68 expire in April and July 2005, respectively. Management considers its labor relations to be good.

(8) Acquisition of Claridge Administration Building

In April 2000, the Company entered into an agreement with the entities controlling the Claridge Hotel and Casino (the "Claridge") to acquire the Claridge Administration Building. The purchase price was \$3.5 million, consisting of \$1.5 million in cash at closing and \$2.0 million consideration tendered through the elimination for 40 months of a \$50,000 monthly fee paid by the Claridge to the Company, under an agreement between the Claridge and the Company governing the development and operation of the "People Mover" leading from the boardwalk to The Sands and the Claridge. The present value of the \$2.0 million consideration has been recorded in other accrued and other noncurrent liabilities sections of the balance sheet. The Company reduces and adjusts the respective liabilities as it records the People Mover license fee in other income and interest expense at an imputed rate of 10%. In July 2003, the remaining obligation related to the Claridge Administration Building acquisition was satisfied in full. The following month the Claridge resumed payment of the monthly fee at the reduced amount of \$20,000 per month.

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Employee Retirement Savings Plan

The Company administers and participates in The Sands Retirement Plan, a qualified defined contribution plan for the benefit of all of the Company's employees, who satisfy certain eligibility requirements.

The Sands Retirement Plan is qualified under the requirements of Section 401(k) of the Internal Revenue Code allowing participating employees to benefit from the tax deferral opportunities provided therein. All employees of the Company, who have completed one year of service, as defined, and who have attained the age of 21, are eligible to participate in the Savings Plan.

The Sands Retirement Plan provides for a matching contribution by the Company based upon certain criteria, including levels of participation by the Company's employees. The Company incurred matching contributions totaling \$406,000 and \$575,000, for the years ended December 31, 2003 and 2002, respectively.

The Company also contributes to multi-employer pension, health and welfare plans for its union employees. For the years ended December 31, 2003 and 2002, the Company contributed \$5,411,000 and \$5,750,000, respectively.

(10) Disclosures about Fair Value of Financial Instruments

Disclosure of the estimated fair value of financial instruments is required under FAS No 107, "Disclosure About Fair Value of Financial Instruments." The fair value estimates are made at discrete points in time based on relevant market information and information about the financial instruments. These estimates may be subjective in nature and involve uncertainties and significant judgment and therefore cannot be determined with precision.

Cash and cash equivalents are valued at the carrying amount. Such amount approximates the fair value of cash equivalents because of the short maturity of these instruments.

Obligatory investments are valued at a carrying amount which includes an allowance reflecting the below market interest rate associated with such investments.

Existing Notes are valued at the market closing price on December 31, 2003 and 2002, respectively.

GREATE BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated carrying amounts and fair values of Holdings' financial instruments at December 31, 2003 and 2002 are as follows:

	December 31, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 16,903,000	\$ 16,903,000	\$ 18,834,000	\$ 18,834,000
Obligatory investments, net	10,705,000	10,705,000	10,069,000	10,069,000
Financial Liabilities:				
Interest payable	3,092,000	3,092,000	3,092,000	3,092,000
Existing Notes	110,000,000	91,300,000	110,000,000	96,400,000

(11) Operating Leases

The Company leases certain equipment and property. Total lease expense was \$2.1 million and \$2.5 million for the years ended December 31, 2003 and 2002, respectively. The following table sets forth the future minimum rental commitments for operating leases:

2004	\$ 1,986,000
2005	1,967,000
2006	1,998,000
2007	1,998,000
2008	1,998,000
Thereafter	<u>8,431,000</u>
Total	<u>\$18,378,000</u>

(12) Reorganization and Other Related Costs

Management anticipates that the exchange of Existing Notes for \$110 million in 3% notes due 2008 will be accounted for as a modification of debt, as opposed to an extinguishment of debt, in accordance with Emerging Issues Task Force Issue No. 96-19, "Debtors Accounting for a Modification or Exchange of Debt Instruments" ("EITF 96-19"). EITF 96-19 provides the quantitative method of evaluating the exchange of debt as either a modification or an extinguishment of debt, as well as the accounting treatment of related costs based on the results of that evaluation. Guidance contained in EITF 96-19 indicates that costs incurred with third-parties directly related to the modification of debt should be expensed as incurred. Costs associated with the debt restructuring and reorganization of Holdings and its subsidiaries amounted to \$1.8 million during the year ended December 31, 2003 and are included in Non-operating Income (Expense), Net on the accompanying Statement of Income (see note 19). Further costs are anticipated in 2004 related to the modification of debt.

(13) Subsequent Events

In January 2004, at the request of Holdings, Ealing Corp., a Nevada corporation and an affiliate of Mr. Icahn, provided a commitment letter to Holdings, dated January 30, 2004, in which Ealing agreed to provide a

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

revolving credit facility under which Holdings and its subsidiaries may borrow up to an aggregate amount of \$10 million to be used for general working capital purposes. Under the terms of the commitment letter, the revolving credit facility will expire on June 30, 2005, borrowings will bear interest at a rate of 10% per annum, and obligations under the revolving credit facility will be secured by a first lien on all of the assets of Holdings and its subsidiaries which will be senior to either the liens securing the Existing Notes or the New Notes, depending on when the loan is funded. Ealing's obligations to provide the financing pursuant to the commitment letter is subject to the negotiation and execution of definitive loan and security agreements and related documents and certain customary conditions. However, there can be no assurance that the loan agreement with Ealing will be consummated, that if the loan agreement with Ealing is not consummated, the Company will be able to obtain financing from another lender on terms as or more favorable than the terms of the commitment letter, or whether the Company will need to borrow funds for working capital.

(14) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	December 31,	
	2003	2002
Prepaid Federal Income Taxes	\$ 1,359,000	\$ 1,359,000
Prepaid insurance	1,575,000	1,461,000
Prepaid slot license fee	552,000	610,000
Other current assets	1,219,000	1,548,000
	<u>\$ 4,705,000</u>	<u>\$ 4,978,000</u>

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Property and Equipment

Property and equipment consisted of the following:

	December 31,	
	2003	2002
Land	\$ 54,344,000	\$ 54,344,000
Buildings and improvements	88,249,000	87,102,000
Operating equipment	64,722,000	50,659,000
Construction in progress	2,111,000	3,612,000
	<u>209,426,000</u>	<u>195,717,000</u>
Less: accumulated depreciation and amortization	<u>(40,013,000)</u>	<u>(26,095,000)</u>
Net property and equipment	<u><u>\$ 169,413,000</u></u>	<u><u>\$ 169,622,000</u></u>

(16) Other Accrued Expenses

Other accrued expenses consisted of the following:

	December 31,	
	2003	2002
Accrued wages	\$ 1,430,000	\$ 1,360,000
Accrued vacation	1,463,000	1,629,000
Accrued interest - 2005 Bond	3,092,000	3,092,000
Other accrued expenses	6,872,000	7,134,000
	<u><u>\$ 12,857,000</u></u>	<u><u>\$ 13,215,000</u></u>

(17) Other Current Liabilities

Other current liabilities consisted of the following:

	December 31,	
	2003	2002
Unredeemed gaming chips	\$ 814,000	\$ 597,000
CRDA bonds payable	498,000	547,000
Other current liabilities	1,099,000	1,877,000
	<u><u>\$ 2,411,000</u></u>	<u><u>\$ 3,021,000</u></u>

GREATER BAY HOTEL AND CASINO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

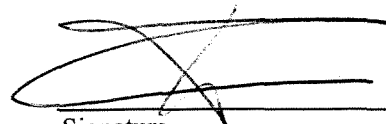
(18) Non-operating Income

Non-operating income (expense) – net is comprised of the following:

	December 31,	
	2003	2002
Reorganization expense	\$ 1,843,000	\$ -
Gain/Loss Property disposal	(105,000)	1,467,000
Other	(339,000)	(446,000)
	<u>\$ 1,399,000</u>	<u>\$ 1,021,000</u>

STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature

Douglas S. Niethold
Vice President, Finance
Title

607036
License Number

On Behalf Of:

Greate Bay Hotel And Casino, Inc.
Casino Licensee

SCHEDULE OF RECEIVABLES AND

PATRONS CHECKS

LICENSEE: GREATER BAY HOTEL AND CASINO, INC.

FOR THE YEAR ENDED DECEMBER 31, 2003

TO THE

CASINO CONTROL COMMISSION

OF THE

STATE OF NEW JERSEY

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
**SCHEDULE OF RECEIVABLES AND
 PATRONS' CHECKS**
 FOR THE YEAR ENDED DECEMBER, 2003

(UNAUDITED)

(\$ IN THOUSANDS)

ACCOUNTS RECEIVABLE BALANCES

LINE (a)	DESCRIPTION (b)	ACCOUNT BALANCE (c)	ALLOWANCE (d)	ACCOUNTS RECEIVABLE NET OF ALLOWANCE (e)
	Patrons' Checks:			
1	Undeposited Patrons' Checks.....	\$ 2,889		
2	Returned Patrons' Checks.....	6,659		
3	Total Patrons' Checks.....	9,548	\$ 5,586	\$ 3,962
4	Hotel Receivables.....	482	53	429
	Other Receivables:			
5	Receivables Due from Officers and Employees	-		
6	Receivables Due from Affiliates.....	62		
7	Other Accounts and Notes Receivables.....	1,134		
8	Total Other Receivables.....	1,196	279	917
9	Totals (Form CCC-205).....	\$ 11,226	\$ 5,918	\$ 5,308

UNDEPOSITED PATRONS' CHECKS ACTIVITY

Line (f)	DESCRIPTION (g)	AMOUNT (h)
10	Beginning Balance (January 1).....	\$ 1,894,200
11	Counter Checks issued (Excluding Counter Checks Issued Through Transactions Relating to Consolidations, Partial Redemptions, Substitutions, and Patrons' Cash Deposits).....	66,441,504
12	Checks Redeemed Prior to Deposit (Excluding the Unredeemed Portion of Counter Checks Redeemed Through Partial Redemptions, and Excluding Checks Redeemed Through Transactions Relating to Consolidations, Substitutions, and Patrons' Cash Deposits).....	(43,906,750)
13	Checks Collected Through Deposits.....	(18,151,548)
14	Checks Transferred to Returned Checks.....	(3,387,986)
15	Other Adjustments.....	0
16	Ending Balance.....	\$ 2,889,420
17	"Hold" Checks Included in Balance On Line 16.....	\$ 0
18	Provision for Uncollectible Patrons' Checks.....	\$ 1,188,064
19	Provision as a Percent of Counter Checks Issued.....	1.8%

Under penalties of perjury, I declare that I have examined this Schedule of Receivables and Patrons' Checks and to the best of my knowledge and belief, it is true and complete.

 Signature
 Vice President of Finance

3/30/04
 Date

ANNUAL EMPLOYMENT

AND PAYROLL REPORT

LICENSEE: GREATE BAY HOTEL AND CASINO, INC.

FOR THE YEAR ENDED DECEMBER 31, 2003

**TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**

**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO
ANNUAL EMPLOYMENT AND PAYROLL REPORT
AT DECEMBER 31, 2003

(\$ IN THOUSANDS)

LINE (a)	DEPARTMENT (b)	NUMBER OF EMPLOYEES AT DECEMBER 31, (c)	SALARIES AND WAGES		
			Other Employees (d)	Officers & Owners (e)	Totals (f)
	CASINO				
1	Administration	10	\$	\$	\$
2	Gaming	381			
3	Slots	138			
4	Casino Accounting	188			
5	Simulcasting	8			
6	Other	43			
7	Total - Casino	768	\$	\$	\$ 0
8	ROOMS	148			
9	FOOD AND BEVERAGE	557			
	OTHER OPERATED DEPARTMENTS				
10	VALET/HEALTH CLUB	27			
11	RETAIL SERVICES	3			
12					
13					
14					
15					
16					
17					
18					
19					
	ADMINISTRATIVE AND GENERAL				
20	Executive office	4			
21	Accounting and auditing	49			
22	Security	150			
23	Other administrative and general department	58			
24	MARKETING	107			
25	GUEST ENTERTAINMENT	163			
26	PROPERTY OPERATION AND MAINTENANCE	177			
27	TOTALS - ALL DEPARTMENTS	2,211	\$53,280	\$1,822	\$55,102


Under the penalties provided by law, I declare that I have examined this report, and to the best of my knowledge and belief, it is true and complete

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

**ANNUAL EMPLOYMENT AND PAYROLL REPORT
SIGNATURE PAGE**

FOR THE YEAR ENDED DECEMBER 31, 2003

Under penalties provided by law, I declare that I have examined this report,
and to the best of my knowledge and belief, it is true and complete.



Signature

March 30, 2004

Date

Douglas S. Niethold
Vice President, Finance

Title

TRADING NAME OF LICENSEE: SANDS HOTEL & CASINO

GROSS REVENUE ANNUAL TAX RETURN

FOR THE YEAR ENDED DECEMBER 31, 2003

(\$ in Thousands)

Line

CASINO WIN:

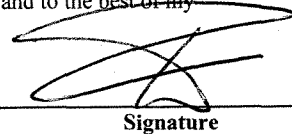
1.	Table and Other Games Win.....	\$	33,202
2.	Slot Machines Win.....		152,562
3.	Total Win.....		185,764

Less - Adjustment for Uncollectible Patrons' Checks:

4.	Provision for Uncollectible Patrons' Checks	\$	1,188
5.	Maximum Adjustment (4% of line 3)	\$	7,430
6.	Adjustment (the lesser of line 4 or line 5)		1,188
7.	Gross Revenue (line 3 less line 6).....	\$	184,576
8.	Tax on Gross Revenue - Reporting Year (8% of line 7).....	\$	14,766
9.	Audit or Other Adjustments to Tax on Gross Revenues in Prior Years		-
10.	Total Taxes on Gross Revenue (the sum of lines 8 and 9).....	\$	14,766
11.	Total Deposits Made for Tax on Reporting Year's Gross Revenue.....		(14,766)
Settlement of Prior Years' Tax on Gross Revenue			
12.	Resulting from Audit or Other Adjustments - (Deposits) Credits		-
13.	Gross Revenue Taxes Payable (the net of lines 10, 11 and 12)		-

Under penalties of perjury, I declare that I have examined this Gross Revenue Annual Tax Return and to the best of my knowledge and belief, the information contained in this return is accurate.

3/26/04
Date


Signature

Vice President, Finance
Title of Officer